

Public Agenda Item #7b

Review and Discussion of Global Public Equity Program:

Review and Discussion of Global Public Equity External Advisor Program

February 23, 2016

Sharmila Kassam, Esq., CPA, Deputy Chief Investment Officer

Lauren Honza, CFA, Portfolio Manager

Michael McCrary, Investment Analyst

External Advisor Program

Global Public Equity External Advisor Team



Sharmila Kassam

Deputy CIO

- BBA, University of Texas
- JD, University of Texas
- CPA
- 12+ Years Investments Experience / Securities Law
- 6+ Years Operational/Management Experience
- 8 Years at ERS

Lauren Honza

Portfolio Manager

- BBA, University of Texas
- MBA, University of Texas
- CFA Charterholder
- 22+ Years Investments Experience
- 6 Years at ERS

Mike McCrary

Investment Analyst

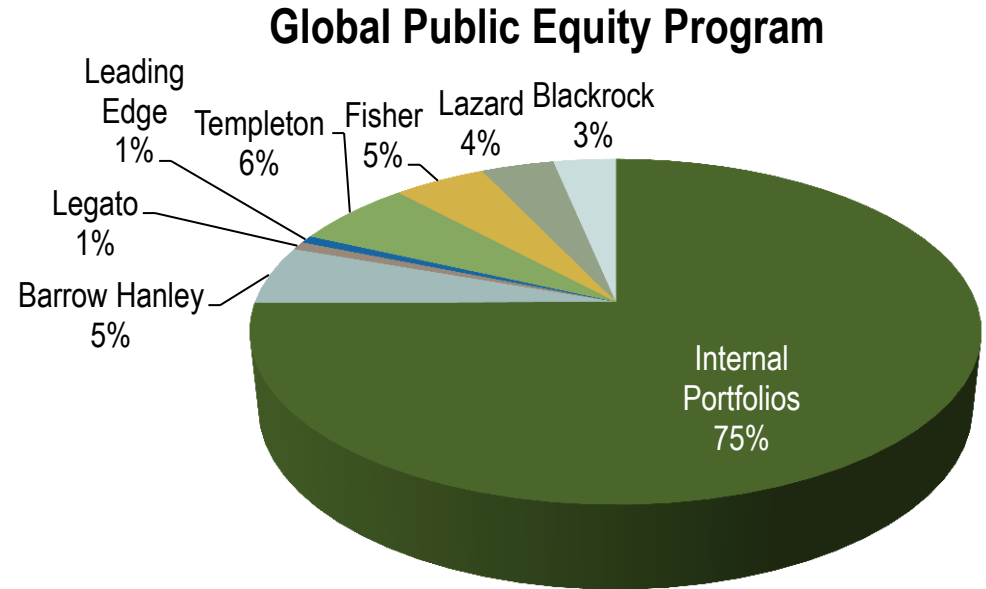
- BBA, Texas Tech University
- MBA, Southern Methodist University
- 17+ Years Investments Experience
- 2+ Years at ERS

External Advisor Program

Objectives



- Complement internal management
- Expand opportunity set
- Seeking managers with higher conviction, differentiated and opportunistic strategies
- 75% internally managed;
25% externally advised*



*Allocation excludes the Directional and Tactical portfolios

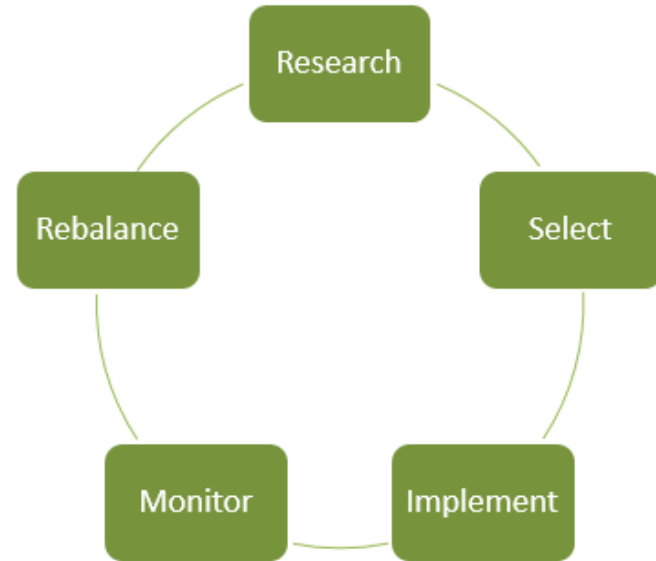
External Advisor Program

Investment Process



The Investment Process managed by the Global Public Equity External Advisor Team is a multifaceted approach is comprised of five phases:

- (1) Research
- (2) Select
- (3) Implement
- (4) Monitor
- (5) Rebalance



External Advisor Program

Investment Process



- Collaborate with Internal team and RMAR
- Identify strategies
- Sources managers

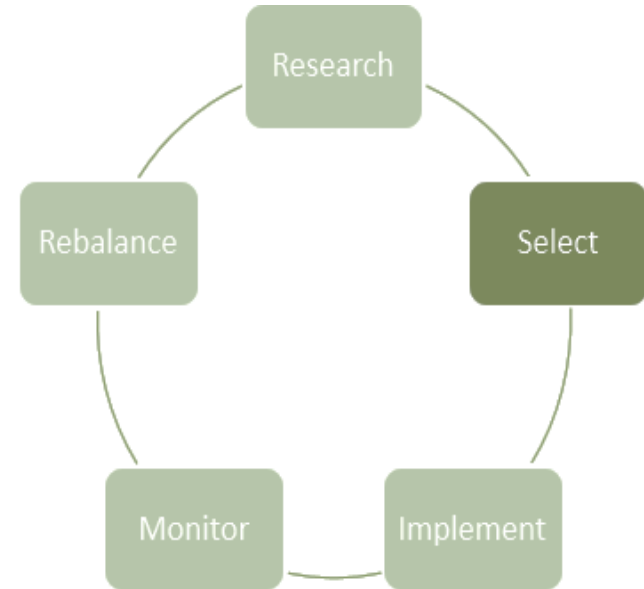


External Advisor Program

Investment Process



- Formal ERS Procurement Process/
Request for Proposal
- Due Diligence
- Internal Investment Committee (IIC)
Selection of Advisor (delegated by
the Board)
- Monitor



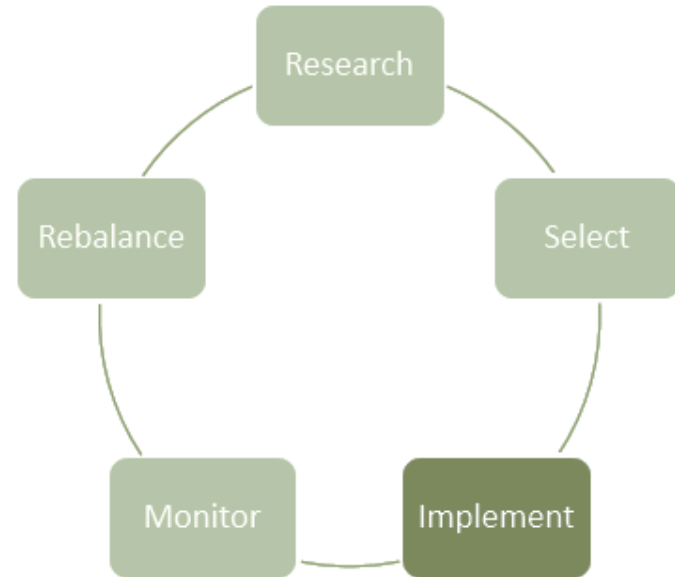
External Advisor Program

Investment Process



Portfolio consists of both external and internal strategies.

The funding decisions are based on staff recommendations and authorized by the CIO, in consultation with the Executive Director, pursuant to the ERS *Investment Policy*.



External Advisor Program

Investment Process - Monitor



Daily	<ul style="list-style-type: none">- Review Trades
Monthly	<ul style="list-style-type: none">- Review Portfolio- Monthly Meetings with Global Public Equity PMs
Quarterly	<ul style="list-style-type: none">- Internally Generated Report- Portfolio Review with Manager (Conference Call)
Semi-Annually	<ul style="list-style-type: none">- <i>ERS Monitoring Form</i>- Portfolio Review with Manager (In-Person Meeting)
Annually	<ul style="list-style-type: none">- Review ADV - Asset Class Peer Review- Operational Due Diligence- Consultant Manager Reports

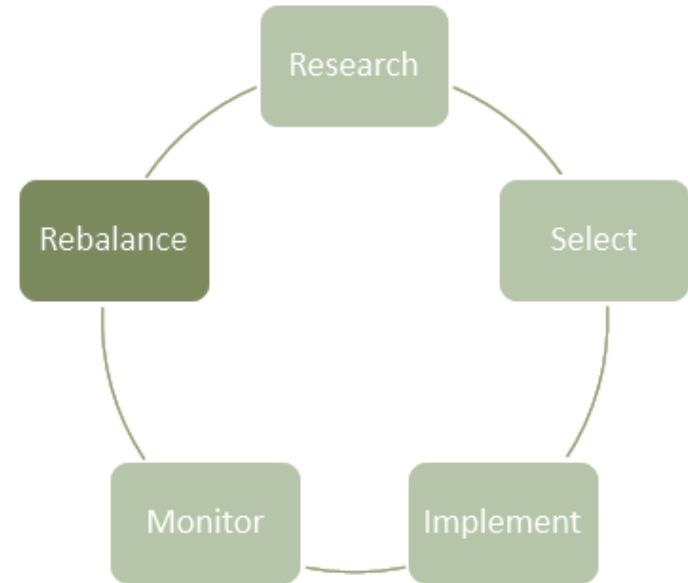


External Advisor Program

Investment Process



- Staff reviews portfolio construction and the internal/external mix
- Rebalances as appropriate



External Advisor Program

Funded External Advisors



	Strategy	Selection Date	Portfolio Inception	Funded Status as of 12/31/2015	Monitoring Status
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	12/2/2010	4/1/2011	\$645,686,121	Good
BlackRock	MSCI ACWI ex-US	12/2/2011	3/1/2015	\$382,215,907	Good
Fisher Investments	MSCI ACWI ex-US	1/24/2006	7/1/2006	\$564,291,812	Good
Lazard Asset Management	MSCI EAFE	8/23/2011	12/1/2011	\$446,421,762	Good
Templeton	MSCI ACWI ex-US	11/19/2002	4/1/2003	\$733,249,420	Good

External Advisor Program

Barrow Hanley/Large Cap Value Equity



- **People**

- Mark Giambrone, portfolio manager, supported by a team of over 10 analysts

- **Philosophy**

- To construct portfolios of individual stocks with value characteristics below the market and dividend yields above the market

- **Process**

- Fundamental, Bottom-up Stock Selection
- Initial Universe – Investment Process – Portfolio Construction – Final Portfolio

- **Performance (net of fees)**

- Outperformed S&P 500 Value by 140 bps in CY2015

External Advisor Program

BlackRock/International Equity Focus



- **People**

- James Bristow and Gareth Williams, co-portfolio managers, are supported by Teun Draaisma, Macro Strategist, and a Global Equity Team (13 investment professionals)

- **Philosophy**

- To utilize a flexible, focused, best ideas approach with an emphasis on risk management

- **Process**

- Bottom-up Stock Selection with Fundamental Macro Insights
- Idea Generation – Research – Portfolio Construction

- **Performance**

- Outperformed MSCI ACWI ex-US by 615 bps since inception in March 2015

External Advisor Program

Fisher/All Foreign Equity



- **People**
 - Investment Policy Committee is the decision making group
- **Philosophy**
 - To seek dominant drivers of stock returns: country, sector and macro themes
- **Process**
 - Top-down Investment Process
 - Portfolio Drivers – Thematic Weights – Prospect List – Stock Selection
- **Performance (net of fees)**
 - Outperformed MSCI ACWI ex-US by 331 bps in CY2015

External Advisor Program

Lazard/International Strategic Equity



- **People**

- Mark Little and Robin Jones, portfolio managers, supported by over 70 analysts

- **Philosophy**

- To invest in companies with strong and/or improving financial productivity at attractive valuations

- **Process**

- Fundamental, Bottom-up Stock Selection
- Idea Sourcing – Fundamental Research – Portfolio Construction

- **Performance (net of fees)**

- Underperformed MSCI EAFE by 62 bps in CY2015
- Has outperformed the index by 376 bps annualized since inception

External Advisor Program

Templeton/Non-US Equity



People

- Cindy Sweeting, Director of Portfolio Management, supported by a team of 38 people

Philosophy

- To find securities that trade at a discount and take a long-term view

Process

- Fundamental, Bottom-up Stock Selection
- Five-stage process begins with analysts following global industry sectors

Performance (net of fees)

- Outperformed MSCI ACWI ex-US by 282 bps in CY2015

External Advisor Program

Select Pool



	Strategy	Selection Date	Portfolio Inception	Funded Status as of 12/31/2015	Monitoring Status
Acadian Asset Management	MSCI ACWI ex-US	12/2/2011	n/a	Unfunded	Good
Acadian Asset Management	MSCI Emerging Markets	12/2/2011	n/a	Unfunded	Good; Strategy Closed
AQR Capital Management	MSCI ACWI ex-US	12/2/2011	n/a	Unfunded	Good
Baring Asset Management	MSCI EAFE	8/23/2011	12/1/2011	Defunded	Monitoring
Brandywine GIM	Large Cap Value	12/2/2010	n/a	Unfunded	Good
J.P. Morgan Investment Management	MSCI Emerging Markets	12/2/2011	7/1/2013	Defunded	Monitoring
J.P. Morgan Investment Management	MSCI EAFE	1/24/2006	7/1/2006	Defunded	Monitoring
Parametric (Eaton Vance)	MSCI Emerging Markets	12/2/2011	n/a	Unfunded	Good

External Advisor Program

2015 Review / 2016 Outlook



2015 Review

- People – New analyst hired
- System – Relationship Management system implemented
- Strategic Relationships
 - Source innovative/complementary investment strategies
 - Augment internal research
 - Develop internal expertise

2016 Outlook

- Refresh of Select Pool
- International Small Cap search
- Consideration of performance fees
- Research on customized investment strategies

Questions?